

CALIFORNIA ENERGY COMMISSION

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April 25, 2006

The Honorable Arnold Schwarzenegger
Governor, State of California
State Capitol Building
Sacramento, CA 95814

Dear Governor Schwarzenegger:

As you noted in your letter yesterday, gasoline prices continue to drain money from Californians. The Energy Commission welcomes your call for an investigation into these continuing high prices.

As reported on the Energy Commission website yesterday, the average California retail price for regular gasoline continues to increase, rising to \$3.07, up more than 17 cents from the previous week. Californians consume roughly 44 million gallons of gasoline and 11 million gallons of diesel each day. The gasoline price increase of the last week is taking over \$ 7 million away from households and businesses every day. High diesel prices are hurting California's agriculture and industry as well. Diesel prices also rose 11 cents from the previous week raising diesel fuel costs over \$1 million a day. With this very wet spring, California's farm industry will also be impacted this planting season.

At your direction last fall, we prepared and released a report, *2005 Gasoline Price Movements in California*, which examined the factors inside and outside California that lead to last year's dramatic run-up in prices. While the immediate effects of Hurricanes Katrina and Rita largely dissipated during the winter months, the current increases clearly show that California's consumers and businesses remain subject to high and volatile prices. While that report focused solely on retail gasoline prices, we will extend our analysis to the wholesale market, as you directed. We will also begin to investigate similar issues in terms of the diesel market in California, since the state's agricultural and trucking industries are affected strongly by increases in diesel prices. We will also work closely with the California Attorney General's office to ensure that any indications of illegal market manipulation, price gouging or unfair business practices can be addressed promptly.

In response to your call for action, the Energy Commission has already updated the *California Consumer Fuels Watch* web page (www.energy.ca.gov/consumerfuels), which includes gasoline-saving tips, information on fuel prices, a link to the Attorney General's gasoline-price complaint form, and other useful information. We will also revise the publication schedule of *Petroleum*

Watch from monthly to weekly starting May 8, 2006. *Petroleum Watch* provides regular updates on wholesale and retail gasoline and diesel prices, refinery production and inventories, and crude oil prices and inventories.

By June 15, we will provide you with an initial report on gasoline and diesel retail price activity. This report will highlight any significant changes in the wholesale or retail prices charged by the petroleum industry for gasoline and diesel, and provide a preliminary discussion of the reasons for these changes. We will also include a review of our current data collection practices and authority, along with recommendations for any changes to that authority that may be needed to better assess these petroleum price issues going forward. By September 30, 2006, we will provide you with an updated report that will include a summer 2006 petroleum analysis. In this report, we will also include the results based on available information on the profits of the industry as a whole and of major firms within it.

The Energy Commission is committed to seeking proactive solutions to reduce our dependency on petroleum. As part of the 2006 update to the Integrated Energy Policy Report, we are preparing a major report on alternative transportation fuels required under AB 1007 (Pavley, Chapter 371, Statutes of 2005). This report will help the State move on the path toward increased use of alternative fuels, including biofuels and hydrogen, and away from reliance on petroleum as our primary transportation option.

We share your concern about continued high fuel prices, and your commitment to building a more stable transportation fuel system for California's future. We will work closely with the Attorney General's office, other state agencies, industry, and stakeholders in this effort.

Sincerely,



Joseph F. Desmond
Chairman